

novationpei

INTEGRATING ECONOMIC DEVELOPMENT

ANNUAL REPORT 2013 2014



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I Products expands

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PEI BioAlliance releases
impressive economic
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Bioscience
Aerospace & Defence
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Audited Financial Statements

Message from the Chief Executive Officer

Honourable Allen F. Roach
Minister of Innovation and Advanced Learning
PO Box 2000
Charlottetown, PE C1A 7N8

Dear Minister Roach,

Please accept this Innovation PEI annual report for the fiscal year ending March 31, 2014.

With direction from your Department, Cabinet and our Board of Directors, Innovation PEI is the lead economic development agency for the Province. Innovation PEI strives to contribute to a stronger Prince Edward Island by helping industry to drive our Island economy. To this end, Innovation PEI supports the development of new products, services and markets, and the creation of sustainable employment opportunities.

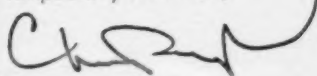
Innovation PEI is committed to growing opportunities for employment and incremental wealth creation for the province. Highlights from this fiscal year include:

- | The Conference Board of Canada scored PEI an "A+" for our Foreign Direct Investment and Employment Growth results
- | \$19,595,424 was approved to support 542 projects with the creation of 1,596 jobs forecast
- | Assistance provided to SMEs for 328 projects, resulting in total investments of \$98 million in the PEI economy
- | For every \$1 Innovation PEI invested in PEI Companies, another \$14 was leveraged from other sources
- | IPEI supported clients reported the creation of 707 jobs during the fiscal year
- | As a member of Trade Team PEI, introduced 83 companies to new markets in the United States, Caribbean, South America, the European Union, and Asia
- | Attracted five new investments that are forecast to create 93 new positions in the strategic sectors
- | Supported six Pilot & Discovery Fund projects and eight Development & Commercialization Fund projects
- | Employment growth in key sectors of Bioscience, ICT, Aerospace, and Financial Services

I would like to thank our Board for their guidance, our Innovation PEI team for their hard work and dedication and the Department for their support.



Respectfully submitted,



Cheryl Paynter, CA
Chief Executive Officer
Innovation PEI



2013 Prince Edward Island Economy Highlights

Provincial GDP advanced 1.4% in 2013, valued at \$4.529 billion. As world economies continue to recover from the economic downturn, Europe remains in recession. The world economy expanded by 3.5%, with emerging economies pushing this up with 5.5% growth in contrast to the 1.4% growth of advanced economies. The average of private sector forecasts places real GDP growth for Prince Edward Island at 1.5% for 2014.

The main contributors to PEI's GDP increase were manufacturing, agriculture, forestry, fishing and hunting, real estate, rental and leasing, finance and insurance, wholesale trade, and accommodation and food service. Manufacturing increased by 6.3%, with particularly strong growth of 18.8% in chemical manufacturing (including pharmaceuticals). Fabricated metal product manufacturing rose 9.2%. Forestry and logging had a steep increase of 32.4%. Manufacturing shipments from PEI increased 9.8% in 2013, while international exports increased 6.3%.

In 2013, service industries in PEI continued slow growth with a 1.2% rise. Wholesale trade rose 4.3% versus the slight 0.9% increase in retail trade. Finance and insurance grew by 5.2%, and arts, entertainment and recreation by 4.7%.

Nights sold at fixed roof accommodations increased 0.1% in 2013, while stays at campgrounds increased 6.1%.



Island potato producers produced 25 million hundredweight of potatoes in 2013, an increase of 3.0% from 2012. Lobster landings increased 5.6% to 28.8 million pounds, a new all-time high, albeit with challenges on the market price side.

The value of non-residential investment on Prince Edward Island declined 13.4% in 2013.

Total capital spending was \$1.06 billion in 2013, an increase of 7.1%, due to increases in both construction and machinery.

Prince Edward Island's population was estimated to be 145,237 at July 1, 2013.

Employment averaged 74,100 people in 2013, an increase of 1.8% from 2012, a new all-time high.

The PEI Consumer Price Index (CPI) was up 2.0% in the 2013 calendar year.

In its 2014 Competitive Alternatives report on business location costs, KMPG ranked Charlottetown #2 in terms of business cost competitiveness among cities in New England and Atlantic Canada.

An April 2014 release by TD Economics noted, "Nominal export growth came in at a solid 6.9% in 2013. Momentum has carried forward into 2014 with aerospace and vegetable exports showing the greatest strength. Looking ahead a weaker Canadian dollar as well as rising foreign demand should bolster Prince Edward Island's export sector."

According to the Conference Board of Canada May 2014 release, "Prince Edward Island benefited from solid economic growth in the manufacturing sector and strong employment growth in some service sectors. PEI drew about twice the foreign direct investment that would be expected for an economy of its size." PEI was awarded an A+ rating in these two categories, and an overall performance grade of "B" due to poor rankings in unemployment rate, per capita income, and outward Foreign Direct Investment. This grade placed the province in the 15th position among the 26 jurisdictions (10 provinces and 16 countries) used in the analysis.

<u>Measure</u>	<u>Goal</u>	<u>2013 Actual*</u>
GDP	\$6 billion by 2016	\$4.529 billion
Employment	75,000 by 2016	74,100
Population	150,000 by 2022	145,237

*Sourced from Statistics Canada; population is estimated



BOARD OF DIRECTORS



Brian Thompson, Chairman
Vice President, Global Engine Services, Vector Aerospace

Brian Thompson is Senior Vice President Commercial for Vector Aerospace Corporation. Brian is responsible for the company's global commercial and development efforts. Brian joined Vector Atlantic in 2006 with a strong senior management background in both the private and public sectors. With Aliant (1998-2003), he had responsibilities in marketing, business development and strategic planning for domestic and export markets. Brian was the Director General of Enterprise Development & Policy at ACOA (2003-2006) responsible for trade, investment, and innovation programs in the Aerospace, IT and Bioscience sectors. He also held senior management positions with the Province of PEI within Agriculture (88-90), Executive Council (90-91), and Enterprise PEI (92-98). Brian holds a BBA from UPEI (1983) and an MBA from the University of Western Ontario (Ivey) (1986).



Linda Duncan - Audit Committee Chair, Director
Executive Director, Mussel Industry Council of North America

Linda Duncan is a culinary adventurer who serves as Executive Director of the Mussel Industry Council (MIC). For the last four years, Linda has led this successful organization, promoting Prince Edward Island mussels to consumers and chefs in the United States and Canada. Linda has spent most of her adult life overseas and has experience in international business in Bermuda, Australia, England, Luxemburg and Canada. She has worked in roles from marketing container shipping to building customer service centres and managing the international operations for Bacardi rum. Linda is currently the Vice Chairman of the PEI Culinary Alliance using the brand, PEI Flavours, to position Prince Edward Island as a premium destination brand in tourism and to promote Island food.



Dave Perry - Audit Committee Member, Director
Director, Software Development, RadNet Inc.

Dave currently works as the Director of Software Development for RadNet Inc. where he leads a team of software developers to build commercial software used in RadNet's U.S. radiology operations, and sold in the global radiology market. Prior to working for RadNet, Dave's career spanned leadership roles with Canada Revenue Agency, Kodak Canada and Carestream Health Canada. As a graduate of the UPEI Bachelor of Business Administration (BBA) and Holland College Computer Information Systems (CIS) programs, Dave lives in Summerside with his wife (Sandra) and family.



Ron Myers - Audit Committee Member, Director
Co-Owner, Thinking Big Information Technology Inc.

Ron graduated from UPEI in 2003 with a BSc. Three years later in 2006 he co-founded Thinking BIG which builds enterprise level applications for both local PEI businesses and diverse clients with unique needs from all over the world. Today Ron leads a team of developers that helps their clients solve complex business and technical problems by providing effective software and technology solutions. Ron is the current president of the IT Association of PEI, committee member of the STATS Charity Tournament, a member of the PEI Developers Group and coaches junior soccer. Ron lives in Charlottetown with his wife (Stacey).



Cheryl Paynter - Secretary/Treasurer to the Board
CEO, Innovation PEI

Cheryl is a UPEI graduate (BBA '95) and earned her Chartered Accountant designation in 1997 and her Certified Financial Planner's designation in 1998. Cheryl has worked extensively in private industry in varying levels of management of financial, operational and sales roles in the hospitality sector; most specifically with D.P. Murphy Inc. spanning an 18 year tenure. Actively involved in the community, Cheryl is a board member and co-chairs the Prince Edward Island Marathon, and is a board member of Cycling PEI and belongs to the Charlottetown Executive club. Cheryl is past president and honorary life member of the Greater Charlottetown Area Chamber of Commerce, past Audit & Environment Chair and board member with Maritime Electric Co. Ltd., past Governor of Atlantic Canada Economic Council and past board member of various industry, community and minor sporting groups. Cheryl lives in Charlottetown and is the proud mother of daughter Cassandra.

BOARD OF DIRECTORS



Dr. Brian McMillan - Director
President and CEO, Holland College

Dr. Brian McMillan is the President and Chief Executive Officer of Holland College in Prince Edward Island. He has been leading the college through a dynamic renewal process for the last nine years. Dr. McMillan is a registered psychologist with the New Brunswick College of Psychologists. He is currently active in numerous organizations including Junior Achievement, Atlantic Provinces Community College Consortium (APCCC), Colleges and Institutes Canada (CIC), CHANCES, PEI Bio-Alliance, University of Prince Edward Island (UPEI) Board of Governors, the Charlottetown Executive Association, and Innovation PEI.



Steve Howatt - Director
VP of Agronomy & Business Development, Technology Crops International

Steve Howatt is the VP of Business Development with Technology Crops International (TCI), a US based company with a specialty oilseed production and oil processing operation in Kensington, PEI. Steve's current responsibilities include providing direction to the company's global crop research and development program, as well as coordination of sales and business development activities. Prior to this role, Steve had owned and operated a crop research company based in PEI. Steve is married with three daughters. He was born and raised in PEI, and has lived in PEI all his life, currently residing in New Glasgow.



Dr. Alaa Abd-El-Aziz - Director
President and Vice-Chancellor, University of Prince Edward Island

Dr. Alaa Abd-El-Aziz assumed his responsibilities as the sixth president and vice-chancellor of the University of Prince Edward Island on July 1, 2011. Since that time he has championed a highly collaborative strategic planning process designed to define and advance the strategic direction of UPEI and support its academic mission - teaching, research and service. Throughout his administrative career, Dr. Abd-El-Aziz has remained actively involved in chemistry, making significant contributions to research and teaching in his field of inorganic and organometallic polymers and materials.



Carl Brothers - Director
President, Frontier Power Systems

Carl Brothers, P.Eng., is a professional engineer with a passion for sustainable energy systems and for rural development. Carl has been an active member of the Canadian wind energy community for 30 years having managed the Atlantic Wind Test Site, Canada's national wind energy testing laboratory, for 20 years. Carl then formed Frontier Power Systems, to focus on the development of wind projects and the design of wind energy systems for remote communities. Carl and his wife Kitty live in Alberton where, for the last 30 years, they have played an active role in the community and have been able to instil in their four children, the values, work ethic and good cheer of rural life in PEI.



Neil Stewart, CA
Deputy Minister, Department of Innovation and Advanced Learning

Mr. Stewart began his career with PricewaterhouseCoopers in Toronto in 1994 and returned to Prince Edward Island with the firm in 1997. Mr. Stewart joined Innovation PEI in 1999, serving as a Financial Analyst and then Director of Financial and Immigration Services. Mr. Stewart was Chief Executive Officer of Innovation PEI and Executive Director of Island Investment Development Inc. from 2009 until November 15, 2011, when he was appointed Chief Executive Officer designate for Finance PEI. Mr. Stewart assumed Acting Deputy Minister responsibilities at the Department of Innovation and Advanced Learning on April 20, 2013, and that appointment was confirmed on October 8, 2013.

Become an entrepreneur!

innovationpei

Cheryl Paynter
CEO Innovation PEI

Gillian MacRae
Founder GetGifted

Honourable Allen F. Roach
Minister of Innovation and
Advanced Learning

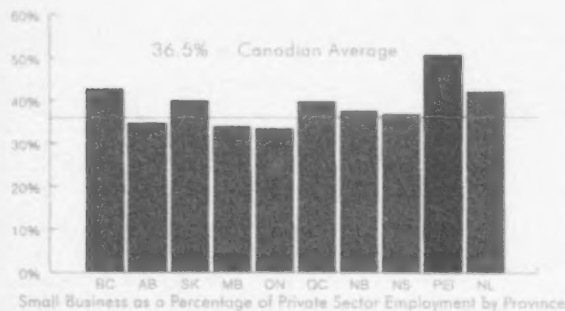
Nicole Osmond
CYBF Director
Atlantic Canada

Announcing a new partnership with Canadian Youth Business Foundation

Entrepreneurship & Small Business

Business Development and Integration Division

The economy of Prince Edward Island is driven to a great extent by the success of small business. Innovation PEI is very committed to helping Islanders explore whether entrepreneurship is for them, and helping small businesses grow into employers and exporters who drive the provincial economy forward. Many of the achievements of our local entrepreneurs are reflected in the sections of this report dedicated to highlighting some of our growing industries.



Prince Edward Island continues to lead the country in a number of Entrepreneurship and Small Business categories, including having the highest portion of employment in small business enterprises as indicated in the adjacent table. Innovation PEI understands that small business is Big Business on Prince Edward Island.

Source: Statistics Canada (SEPH)

Innovation PEI's Business Development and Integration Division provides counseling, financial assistance, business guidance, entrepreneur education and management development to assist businesses with start up, expansion and diversification. Division staff delivered business counseling services to hundreds of clients during the past year across the Island.

Supporting the growth of an entrepreneurial culture in PEI continues to be a core economic development activity, as growing the economy from within is proven to be the most sustainable source of economic activity. There has been a particular concentration of entrepreneurship activities on youth, new immigrants and business education during the past fiscal year.

Innovation PEI partners with a number of organizations to support the entrepreneurship ecosystem. Innovation PEI has worked very closely with local business support groups to deliver programs such as: PEI Connectors, Junior Achievement, community business development corporations (CBDCs), Summerside Mentoring Program, Canadian Youth Business Foundation (now called Futurpreneur Canada), the Young Millionaires Program and Entrepreneurs Forum.

The Island Advanced Task Force, formed by the Greater Charlottetown Area Chamber of Commerce to make recommendations on ways to advance the Prince Edward Island economy, released their report in June 2013. Innovation PEI participated and contributed to the Task Force during the development of the report. Staff continue to work with the group on implementation to address the action list items during 2014-15. The areas of focus on the action list are entrepreneurship (specifically youth and mentoring), access to capital and immigrant entrepreneurs.

Recognizing the importance of business skills and knowledge to the successful start-up and growth of a business, Innovation PEI plays a key role in business skills development for existing and aspiring entrepreneurs. As examples, IPEI partnered with CBDCs to deliver entrepreneurship forums tailored to youth and seniors, and a series of Increased Productivity and ISO awareness workshops were delivered to 85 businesses.

PEI CONNECTORS PROGRAM NETWORKING



Claire Li Don MacCormac Lannia Pan Tingting Hu MacAleer



Beth Doyle
BizPal Coordinator

Small Business Week 2013 was held October 20-26, with events at various locations across PEI, including the Rural Action Centres. Innovation PEI continues our support of the annual event as a financial sponsor and participant, and by taking a lead role in the organization and coordination of the event. In addition to opportunities to network and celebrate successes, events provided focused opportunities to expand knowledge. Areas included understanding financial statements, online sales, integrating and retaining newcomers, BizPal, social media, human resources, growing your business, and branding.

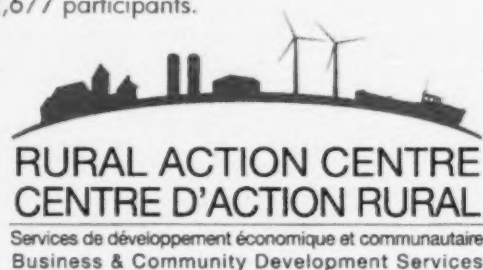
Innovation PEI values the contributions of our rural areas to our economy, and understands the importance of delivering our services and programs to businesses in their home region. Innovation PEI's Business Development Officers deliver our full suite of programs and services out of the Rural Action Centres in Montague, Central Bedeque, Alberton, Souris, and Wellington. Innovation PEI staff also offer services through the Access PEI site and the Holman Centre building in Summerside.

The Rural Action Centres (RACs) are one-stop-service centres that host multiple federal, provincial and non-government organizations focused on business and community development. Services delivered through the RACs include business counseling and education; assistance for start ups, expansions and diversifications; business loans; community & project development assistance; government services for community economic development; and tourism product development and marketing.

In the 2013-14 fiscal year, the Rural Action Centres hosted 129 events with 2,677 participants.

Examples of business related education events in this period are:

- Branding Your Business
- Business Start Up Training
- Canadian Intellectual Property Session
- Understanding Your Financial Statements
- How to Sell Your Products Online
- Introduction to Social Media
- eForce PEI



Shane MacDougall
Director, Business
Development and Integration



Irish Gormley
Administrative Assistant



Gerald Arsenault
Business Development
Officer (Central Region)



Preston Uwevellyn
Business Development
Officer (East Region)



Brian Keefe
Director
Economic Development
Summerside Region



Lannia Pan MacAleer
Business Development
Officer (Central Region)



Melissa MacLaren
Business Development
Officer (Central Region)



Allison Ramsay
Entrepreneurship
Development
Coordinator



Stephen Reaman, MBA
Business Development
Officer (West Region)

VALUE ADDED FOOD PRODUCTION



Innovation PEI recognizes the strength and potential in value added food industries from both land and sea. Production and processing have long been the mainstay of the Prince Edward Island Economy.

Innovation PEI's Food Product Development Fund supports pre-commercialization and commercialization activities. Eligible activities may include new product and prototype developments, technical feasibility determinations, new process developments, test-market production, food safety assessments, sensory analysis, supplier sourcing, and related activities.

Some highlights of Innovation PEI supported projects include:

Jasper Wyman & Son's blueberry operation in Morell announced a major expansion in October 2013 that will see Wyman's workforce double from 25 full-time and 70 seasonal jobs to 50 full-time and 140 seasonal jobs. Jasper Wyman & Son is a privately owned company, based in Maine since 1974, and has operated a blueberry processing plant in Morell since 1998. This expansion will see its plant increase production from eight million to twenty million pounds per year.



Ed Flanagan, president of Wyman's PEI

frozen. Through a collaboration between BIO|FOOD|TEC and Global Food Technologies Inc., a proprietary process has been implemented at Royal Star Foods Ltd. for commercial production of the new product. In addition to availability to consumers, the concentrate will also be used by Royal Star Foods Ltd. as an ingredient in future new products.

Amalgamated Dairies Limited (ADL) is Prince Edward Island's largest dairy production company. Products include award-winning cheeses, butter, milk, ice cream and condensed milk. The company has five milk processing facilities in Summerside, Charlottetown and O'Leary and employs upwards of 250 people. ADL undertakes a number of upgrades, acquiring specialized equipment and technology to improve production efficiencies at capacity, and to diversify products to respond to consumer demand. These upgrades included the purchase and installation of new technology used for cheese cutting and packaging line. Excluding the artisan category, ADL is currently the only cheese processor in the Atlantic region and is one of three evaporated milk plants remaining in Canada.

Matos Winery & Distillery in St. Catherine's provides an example of the success being achieved by our flourishing group of local craft breweries, distilleries and wineries. The founders purchased ten hillside acres in 2007 and the first harvest occurred at the end of October 2011. Construction of the winery was completed in 2011, housing a showroom and tasting bar and offering tours to the public. Matos produces Chardonnay, Rouge Gamay-Noir and Angelica, as well as Anisette and Bagatelle. The winery has won several awards, including Silver at the 2013 Canadian Wine Awards for its Gamay Noir. In the 2013 Atlantic Canadian Wine Awards, the company was awarded Bronze for its Chardonnay and Gold for its Rouge



Matos Winery & Distillery Photo Credit

Royal Star Foods Ltd., a subsidiary of Tignish Fisheries Co-op Association Ltd., is an innovative provider and processor of high quality PEI lobster and seafood products for both retail and food service. The company's Star of the Sea brand is well recognized for its quality. Royal Star Foods expanded its cold storage facility in late 2013 to improve productivity and respond to increased demand for new products. In early 2014, Royal Star introduced a value-added lobster concentrate, The Star of the Sea Lobster Concentrate. The product is a creamy paste that is 100% lobster and is available



BIO|FOOD|TECH
CONCEPT TO PILOT TO MARKET



BIO|FOOD|TECH provides professional technical services to the food and Bio processing industries from concept to pilot to market. BIO|FOOD|TECH is a 100% owned subsidiary of Innovation PEI. The BIO|FOOD|TECH and NRC-IRAP Contribution Agreement allows companies to do small projects at BIO|FOOD|TECH free of charge. The objective of the Contribution Agreement is to provide Canadian SMEs with innovation and technical support with fast response to clients, as approval to proceed with work on projects is usually obtained the same day as it is sought. This objective was achieved in FY 2013-14 by working on 44 projects for 38 clients. There is no red tape for clients as BIO|FOOD|TECH's Project Leaders write up the project proposal for the client and obtain the approval from NRC-IRAP directly.

BIO|FOOD|TECH's Lab Services Division provides processing companies with the support required to assure that their products are safe and wholesome for their customers. Food processors deliver food samples to BIO|FOOD|TECH daily for analysis. Lab staff perform analyses accredited by the Standards Council of Canada and provide reports to processors to confirm the safety of products. BIO|FOOD|TECH also provides clients with certificates of analysis to enable export of product to the USA, Europe and Asia.

Three "HACCP and the Control of Listeria" workshops were conducted during the year and these were attended by thirty-seven registrants. This course is indispensable for companies that want to have a properly functioning food safety system in place. Participants learn to understand food safety hazards. They also learn the essentials of preparing a HACCP Plan for their companies.

Twenty-eight confidential contracts between BIO|FOOD|TECH and clients were completed by the Food Technology, Bioscience Technology and Lab Services division. BIO|FOOD|TECH is committed to the security and confidentiality of our clients' information. Project information, reports and study results belong to the client and are not developed for publication. Consent to reveal general activities has been received from some of our clients. These are published in our newsletters and on our website www.biofoodtech.ca

Twenty-one registrants attended the Introduction to Fermentation Workshop held at BioFoodTech in January 2014. Instructors Deanna Burnett Keener, Wade Bennett and Jennifer Shelton from the Artisan Craft Institute in Washington state covered fermentation processes for micro breweries, wineries and flavoured vinegars. Kevin Shiell of Collège Communautaire du Nouveau-Brunswick collaborated by providing demonstration equipment and materials for this training event.

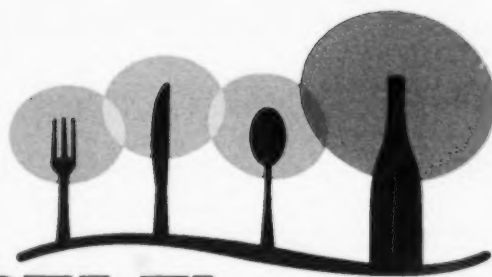
BIO|FOOD|TECH has been playing an essential role in scale-up work for Ceapro Inc. as the company gets nearer to commercialization of a patented new technology process for the Novel Drying Process for Beta Glucan. The novel SFE drying technology can be used to generate dry powders, fibres and granules that can be used for cosmetic, pharmaceutical, nutraceutical, biomedical, food and other technical applications. This offers benefits where heating can damage sensitive materials or compounds.



Jim Smith, PhD, MBA, FIFST, FCIFST, CSci, CFS, Executive Director, BIO|FOOD|TECH showcasing finished product from their new lobster pasteurization process developed with assistance from the Department of Fisheries, Aquaculture and Rural Development.



CONCEPT to PILOT to MARKET



PEI Flavours

Where Food & Culture
Come To Life!™

The Culinary Alliance connects growers, producers, processors, chefs, restaurants, tourism operators, and federal and provincial government to form one united voice. Innovation PEI is pleased to be one of four provincial government contributors and houses the day-to-day operations and management of the Alliance.

Other provincial government contributors include:

Department of Fisheries, Aquaculture and Rural Development
Department of Agriculture and Forestry
Department of Tourism and Culture.

Some highlights from the Alliance for the year are:

The 2014 Burger Love campaign was by far the most successful to date. Fifty four restaurant partners participated in the program selling over 92,000 burgers. That's over 3000 locally grown beef burgers per day. In total it's estimated that the entire month of Burger Love contributed over \$1.85 million to the PEI economy.

**PEI
Burger
Love.ca**

The PEI Culinary Trail has continued to highlight the abundance of local restaurants, markets, fishers, farmers, authentic product and events. Being a print year we were afforded the opportunity to create a more user friendly guide by slimming its width and alphabetizing the rear index. There were 100,000 guides printed as online users have increased. Both tourists and locals rely on this guide as a resource that showcases the flair and quality of our local people, producers and products.

Fall Flavours grew to new heights in the month of September selling out nearly every event, further illustrating that increasing capacity (both seats and resources) must be a priority for the festival. Overall ticketing sales were up nearly 37% from the previous year, attracting roughly 43% of our guests from the Island. In total over 60 events were held featuring 8 acclaimed celebrity chefs. In addition to capacity, continued focus on quality will be essential, as we strive to be a leading food festival in North America. Our partnership with the Food network, as well as the incredible work done by Versatile Management Group, continues to draw people from Canada and the U.S. to take part in a great event. The 19th PEI International Shellfish Festival was hosted by Chef Michael Smith. The Festival saw tremendous growth in advance ticket packages, a 70% increase over 2012. The Festival saw an increase in visitation of 5.0% representing over 7,000 unique ticket buyers, many of which attend the festival daily. The festival continues to attract visitation to the Island in the shoulder season with off Island visitation remaining strong at over 50%, while 69.0% of those at the Signature Event Feast and Frolic travelled from off Island.

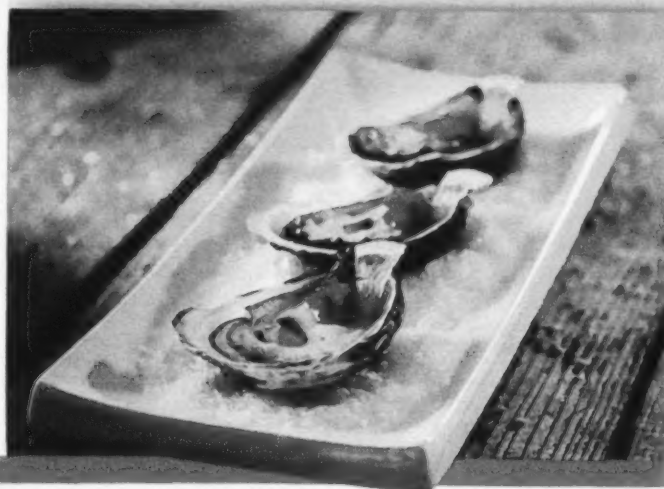
<http://peiflavours.ca/index.php/about-us/>



Greg Pearce
Program Officer
PEI Culinary Alliance



Jan Holmes (on leave)
Program Officer
PEI Culinary Alliance





Innovation PEI's Trade and Export Development Division works to increase revenues from export sales and to help Island companies become export ready. The division provides training and support for market entry activities and market-specific information to help businesses target their efforts.

A key tool for promoting Island trade is the intergovernmental partnership offered by Trade Team PEI (TTPEI), a joint agreement of government departments and agencies, equipped to assist Island exporters. Led by Innovation PEI and ACOA PEI & Tourism, TTPEI offers a wide range of programs and services and assists more than 100 Island companies each year.

From inter-provincial missions to destinations abroad, locations are carefully selected to meet the needs of traditional and emerging markets. In cooperation with Trade Team PEI, and Trade Team Canada partners, Innovation PEI offers a cost-effective way to explore new markets. The mission team offers logistical support to companies venturing into new markets.



| In 2013-14 TTPEI trade initiatives introduced many companies to new markets

| 28 to new markets in the US including New York and Florida

| 25 to new markets in the Caribbean and South America, with Brazil being a joint effort amongst four Atlantic Provinces

| 7 to new markets in the European Union including Holland and Belgium

| 23 to new markets in Asia including Taiwan, Japan and Asia

A mission of particular promise saw Premier Robert Ghiz lead a delegation including Island businesses, trade development staff and representatives of UPEI and Holland College to markets in Japan, Taiwan and Hong Kong. Innovation PEI signed a Memorandum of Understanding with its counterpart in Taiwan (TAITRA) to promote bilateral trade. Prince Edward Island was the fastest-growing provincial exporter to Taiwan between 2008 and 2012.



TTPEI hosted International Market Research workshops in the Fall of 2013. The workshops focused on the importance of research in establishing new or expanding existing markets, and how to develop market research plans that are consistent with a company's capacity, capabilities, and growth objectives. The workshops highlighted potential sources of market information as well as techniques for collecting, interpreting, and understanding the information gathered through market research. Key workshops were held in : | Taiwan | European Union | Brazil



Sebastian Manago
Director, Trade and
Export Development



Alicia Birt
Administrative
Assistant



Jamie Blanchard
Trade Development
Officer



Lee Brammer
Manager, Trade
Initiatives



Bonnie MacDonald
Trade Development
Officer



Sheri Lee McKenna
Export Development
Officer

INFORMATION COMMUNICATION TECHNOLOGY

On Prince Edward Island, the Information and Communication Technology Sector has grown into a diverse and resilient cluster that includes both Island-grown industries and firms that have moved or expanded into the Island economy. The sector is diverse with companies creating everything from video games to E-health solutions, utility management tools to customized software, and mobile development and enterprise resource support.

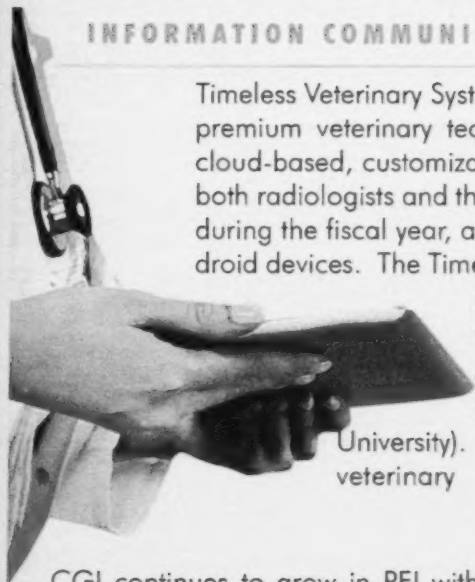
Innovation PEI has offered young Islanders a chance to stretch their creative muscles and gain technical skills through the Game Force Boot Camps. The Game Force program teaches the fundamentals of 2D and 3D video game development to junior and senior high school students across Prince Edward Island. A key goal of Game Force is to act as a "feeder" for the post-secondary institutions on Prince Edward Island and to get Island youth involved in the video gaming industry. Game Force has exposed nearly 600 participants per year to the gaming industry through a range of summer camps, expos, and after-school programs.



Some examples of Innovation PEI supported projects this year are:

CONTAX, a North American leader in business software solutions for small to mid-sized enterprises, expanded its operation to Prince Edward Island in April 2013. CONTAX is an SAP gold channel partner and one of the largest independent SAP software and service providers in North America focusing exclusively on SAP ERP implementations and ongoing support. CONTAX forecasts the creation of 37 jobs over five years.

TUC Managed IT Solutions makes technology uncomplicated for business. Ranked as a top 50 global managed services provider and the largest in Canada, TUC® provides infrastructure, applications, virtual CIO, managed and cloud services. TUC employs IT professionals to serve its North American client base from Summerside. The company plans to add seventeen positions in a newly opened PEI office in 2014 and a further fifteen in 2015. The hiring will involve Level 1 and 2 IT support technicians, but additions of other corporate functions are under consideration.



Timeless Veterinary Systems Inc. announced the release of their latest innovation in a growing line of premium veterinary technologies in May 2013. The Timeless Case Management System™ is a cloud-based, customizable teleradiology platform designed to simplify the entire referral process for both radiologists and their referring clients. The company released several updates to other solutions during the fiscal year, and in February 2014 officially released the Timeless Vet Drug Index™ for Android devices. The Timeless Vet Drug Index™ is a strictly evidence-based drug formulary app and the result of a major collaborative effort between Timeless Veterinary Systems and three prominent experts and authors, Dr. Etienne Côté (Clinical Veterinary Advisor), Dr. Stephen Ettinger (Textbook of Veterinary Internal Medicine), and Dr. Wayne Schwark (Emeritus Professor of Pharmacology, Cornell University). The Timeless Vet Drug Index had already been downloaded by over 7,000 veterinary professionals in 82 countries prior to this formal launch.

CGI continues to grow in PEI with intentions to create up to 300 positions within three years at its Stratford location, as announced in January 2014. CGI (TSX: GIB.A; NYSE: GIB) currently employs eighty people in Prince Edward Island. Immediate job opportunities are available for project managers, business analysts, testing professionals, application developers and support specialists.

LaunchPad helps new business ventures in ICT and Professional Services navigate through their first year of operation by providing subsidized professional office space in locations across the Island, mentoring and guidance, and referrals to outside resources such as professional development and training. To date, the program has graduated 14 companies that now employ over 145 people. 62% of LaunchPad participants are still in operation on Prince Edward Island and 10% of participants re-entered the workforce to pursue other employment opportunities.



Steve Thain
Senior Investment Officer
ICT, Software & Gaming



Julie Alford
Business Development
Officer, ICT and Software



Fred Irving
Game Force Instructor



Brad Mix
Senior Director,
Prospecting & Innovation Program



ACCELERATING YOUR BUSINESS

collaboration
is in our
nature

Prince
Edward
Island
CANADA



Bioscience

Animal health | Natural Health Products | Bio Active Extraction & Processing | Ag Bio

The bioscience industry is a natural fit with the Island economy. Business on Prince Edward Island is quite literally rooted in the crops of our fields and bolstered by the rich wealth that comes from our fisheries. It has been for centuries. Just as biotechnology has become an increasingly important part of the agriculture, fishing and pharmaceutical industries, bioscience has become an increasingly significant contributor to Island life.

The focus areas for the sector represent significant potential for product development and can be supported by continuing to develop strong linkages to the Island's agricultural and marine industries. The focus areas are: human health, specifically natural health products; cosmetic ingredients, nutraceuticals and active pharmaceutical ingredients; animal health and nutrition products; fish health products for global aquaculture; and human and animal diagnostics.

An economic analysis report, commissioned by the PEI Bio Alliance released in April 2014, showed impressive industry growth. The statistics contained in it shed light on the impact and contribution of the bioscience industry within the province.

Highlights include:



- From 2006 to 2012, bioscience grew an average of 33 per cent per year on PEI.
- Prince Edward Island's Bioscience sector now contributes 2.9 per cent of the provincial GDP.
- In 2012, Bioscience was linked to 1900 direct and indirect jobs with payroll of \$91.9 million and average salary of \$54,000.
- Bioscience exports rose 147 per cent from 2004 to 2012.

The PEI Bioscience Industry had a busy year, with the hosting of an international industry event, acquisitions, patents, new product launches, and R&D initiatives.

Some highlights of Innovation PEI supported companies included:

Global Animal Health and Nutrition Conference was held in Charlottetown June 10-12, 2013, to explore market trends, global regulatory issues, and innovative developments related to companion and food animal health and nutrition. Attendees included senior executives, investors, regulators, and researchers from around the world including Brazil, the U.K., China, Switzerland, Israel, and North America.

BioVectra Inc. announced a new agreement naming it as a non-exclusive agent of Reagent Proteins in North America and Europe. This agreement enables BioVectra to provide access to Reagent Proteins' unique range of 5,000+ catalogue protein products to its customers, and offers potential for custom projects.

BioVectra received an Atlantic Innovation Fund award for the development of pharmaceutical formulation technology. Products utilizing sustained-release technology will be developed and submitted for approval in partnership with a multi-national drug company.

Novartis Animal Health Canada completed expansions at both its Victoria R&D facility and its Charlottetown production plant.

Neurodyn Inc. acquired all assets related to the Alzheimer's prescription drug candidate, Memogain®, from Germany's Galantos Pharma GmbH. Memogain® is an Alzheimer's prescription drug candidate that shows significant improvement over existing drugs. It is currently in clinical trials. The company also received funding from ACOA for the development of two new products for Parkinson's disease mitigation.

In July 2013, Neurodyn announced that it secured US Patent 8,497,123 (Sterol Glucosides Toxins) to protect a diagnostic technology in development. This technology has the potential for early identification of individuals at risk of developing neurological diseases.

Neurodyn completed the North American launch of NeuroPro™ supplement, a concentrated source of triterpenoid saponins extracted from ginseng which have been found to support cognitive function, promote mental performance and enhance physical capacity.

Honibe® Honey Lozenges™ secured a collaboration deal with Safeway to showcase the Honibe® Honey Lozenges™ in all Safeway cough and cold sets across the nation. The product is now available in 190 Safeway stores in Canada.

In March 2014, Island Abbey launched the world's first line of 100% pure dried Agave products under their newest food and natural health product brand: PurAgave™.



Randy Peach, MSc
Senior Investment Officer
Bioscience



Joan Turner Adams, MBA
Business Development Officer
Bioscience



Kelly Richard, MBA
Investment Officer
Bioscience

FOSTERING
COMMERCIALIZATION





AEROSPACE

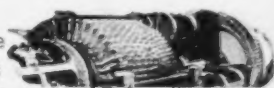
The Prince Edward Island Aerospace & Defence industry has grown to ten companies - seven in Summerside and three in Charlottetown. These companies directly employ 900 people, with salaries of \$32 million annually. The direct industry output is over \$380 million. Aerospace and Defence companies have a major impact on our economy. At the current growth rate, aerospace and defence in PEI will grow to employ over 1100 people and account for \$500 million in annual exports within the next five to seven years.

The aerospace industry has taken steps to address its own human resources challenges through various awareness and training programs, including co-op placements and in-school presentations. In 2013 this included the creation of an Aerospace Fundamentals program with eleven participants, due to be completed in June 2014, receiving both in class and on the job training at several aerospace companies (Action Aero, 3 Points Aviation, Honeywell and Vector). An Aerospace Essential Skills Competition for Secondary students is now offered annually in collaboration with Skills Canada PEI at the Holland College Gas Turbine Lab.

Applications to Holland College's Gas Turbine Technician Program rose considerably in 2013, resulting in the largest student intake number in several years for the 2014 program.

Vector appeared in the number nineteen position of the 2013 edition of Progress Magazine's annual "Top 101 Companies in Atlantic Canada", with annual revenue of \$227 million.

In August 2013, Vector Aerospace was awarded a National Defence contract for repair and maintenance of the CC-138 Twin Otter aircraft engines. The value of the contract is \$1 million over three years; it includes options for seven additional years. If each of the one-year options is exercised, the contract will have a total value up to \$7.9 million over ten years. The company expects twelve new jobs will be created by 2014 as a result, following an increase of 50 employees in the previous months of 2013.



Portsmouth Atlantic Ltd. is PEI's newest aerospace company, announced in October 2013. It is a new subsidiary established by Portsmouth Aviation, a UK-based defence contractor and advanced engineering company. Portsmouth Atlantic designs, develops and manufactures technology focused on Air Quality Management and Filtrations Systems for military forces, ships and the aerospace and defence market. The company expects to create 35 new jobs in the province over three years.

IPEI staff organized a business development mission to Western Canada for a group of six PEI companies with financial assistance from NRC. The mission directly resulted in increased work orders and sales opportunities.



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Visit us online at: www.portav.com

Portsmouth Atlantic
A Division of Portsmouth Aviation

**CLEAN AIR
CLEAN WATER**

Minister Roach

Simon Escott - President
Portsmouth Atlantic





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Highlights of our 2013 / 2014 Accomplishments

In January of 2014, Jason Aspin, CEO of Aspin Kemp and Associates (AKA), was named Atlantic Entrepreneur of the Year on Progress Magazine's annual list of Atlantic Canadian Entrepreneurs. AKA is a major designer and developer of innovative products and services for the marine and offshore industry with operations in PEI, Nova Scotia, Ontario, Texas, and Singapore. AKA expanded its PEI presence in 2014 with the relocation of its head office from Ontario to Montague. The move is expected to create 25 new jobs in Prince Edward Island, with Innovation PEI providing support for these new positions.

ADROK, a Scottish-based company, has patented their product Atomic Dielectric Resonance (ADR), which provides a non-invasive geophysical survey of sites. The ADR system uses electromagnetic beams to penetrate materials to determine what is below the earth's surface, providing fast and accurate results. ADR is a win for both the environment and commerce, as the process has zero environmental impact and costs a fraction of the normal drilling cost for test wells. ADROK chose Prince Edward Island as the location for its expansion into Canada and into the North American market.

Charlottetown Metal Products (CMP) has a 50-year history in the design and manufacture of equipment for the seafood and food processing industries. Over eighty per cent of the company's sales are exports, and the company tripled in size in the previous five years. To continue growing, CMP needed additional plant space, equipment, designers, engineers and skilled craftsmen. In 2013, CMP added nearly 12,000 square feet to its business space and is projecting hiring forty people over the next five years, increasing staffing from its current level of eighty full-time workers. The capital and renovation costs for the planned expansion of CMP are expected to be \$1.2 million, with a further increase of over \$3 million in salaries paid to new staff.

IPEI delivered a series of workshops to 85 businesses focused on increased awareness of productivity and ISO Certification.



Steven Kelley President CMP

Innovation PEI

Consolidated Financial Statements

March 31, 2014



June 23, 2014

Independent Auditor's Report

To the Minister of Innovation and Advanced Learning

We have audited the accompanying consolidated financial statements of **Innovation PEI**, which comprise the consolidated statement of financial position as at March 31, 2014, and the consolidated statements of operations, accumulated surplus, changes in net financial assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Innovation PEI** as at March 31, 2014, and the results of its operations, changes in its net debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

ArsenaultBestCameronEllis

Chartered Accountants

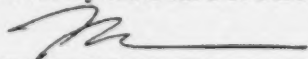
Innovation PEI

Consolidated Statement of Financial Position

As at March 31, 2014

	2014 \$	2013 \$
Assets		
Financial assets		
Cash	901	4,026,531
Accounts receivable (note 2)	470,842	1,192,069
Advances to related companies (note 4)	10,568,786	8,913,337
Due from Province of Prince Edward Island	18,338,439	19,759,489
	<u>29,378,968</u>	<u>33,891,426</u>
Liabilities		
Accounts payable and accrued liabilities (note 4)	<u>23,818,800</u>	<u>27,921,863</u>
Net financial assets	<u>5,560,168</u>	<u>5,969,563</u>
Non-financial assets		
Prepaid expenses and deposits	23,886	693,474
Property holdings (Schedules 2 and 3)	686,288	141,341
Deferred capital contribution	-	(535,000)
	<u>710,174</u>	<u>299,815</u>
Accumulated surplus	<u>6,270,342</u>	<u>6,269,378</u>

Approved by the Board of Directors



Director



Director

Innovation PEI

Consolidated Statement of Accumulated Surplus For the year ended March 31, 2014

	2014 \$	2013 \$
Accumulated operating surplus as previously stated - Beginning of year	5,903,339	5,404,063
Prior period adjustment	-	8,136,392
Accumulated operating surplus - as restated	5,903,339	13,540,455
Transfer to Finance PEI (note 7)	-	(7,697,466)
Annual surplus	964	60,350
Accumulated operating surplus - End of year	5,904,303	5,903,339
Contributed surplus (note 4)	366,039	366,039
Accumulated surplus - End of year	6,270,342	6,269,378

Innovation PEI

Consolidated Statement of Operations For the year ended March 31, 2014

	Budget (Unaudited) \$	2014 \$	2013 \$
Revenue			
Grant - Province of Prince Edward Island (note 4)	21,710,200	23,710,200	22,320,200
Government funding	500,000	585,000	-
Project revenue	1,574,000	1,245,883	1,402,589
Miscellaneous	20,000	32,383	13,947
Gain on sale of property holdings	-	15,000	-
	23,804,200	25,588,466	23,736,736
Expenses (Schedule 1)			
Operating	5,489,500	5,750,265	5,406,131
Development programs	18,069,700	19,595,424	18,010,058
Project costs	85,000	86,208	124,468
Amortization - property holdings	160,000	155,605	135,729
	23,804,200	25,587,502	23,676,386
Annual surplus	-	964	60,350

Innovation PEI

Consolidated Statement of Changes in Net Financial Assets

For the year ended March 31, 2014

	2014 \$	2013 \$
Annual surplus	964	60,350
Acquisition of property holdings	(700,552)	-
Amortization of property holdings	155,605	135,729
Transfer of property holdings	-	9,882,586
Change due to property holdings	(544,947)	10,018,315
Transfer of net investment in leases	-	828,030
Change in deferred capital contributions	(535,000)	535,000
Change in prepaid expenses	669,588	(634,786)
Increase (decrease) in net financial assets	(409,395)	10,806,909
Net financial assets (debt) - Beginning of year	5,969,563	(13,043,297)
Net debt of Innovation PEI subsidiaries transferred to Finance PEI (note 7)	-	8,205,951
Net financial assets - End of year	5,560,168	5,969,563

Innovation PEI

Consolidated Statement of Cash Flows

For the year ended March 31, 2014

	2014 \$	2013 \$
Cash provided by (used in)		
Operating activities		
Annual surplus	964	60,350
Items not affecting cash		
Amortization - property holdings	155,605	135,729
Gain on sale of property holdings	(15,000)	-
Transfer of net assets to Finance PEI (note 7)	-	7,440,229
	141,569	7,636,308
Net change in non-cash working capital items		
Decrease (increase) in accounts receivable	721,227	(1,796,885)
Decrease (increase) in prepaid expenses and deposits	669,588	(694,166)
Increase (decrease) in accounts payable and accrued liabilities	(4,103,063)	616,445
	(2,570,679)	5,761,702
Financing activities		
Decrease in due from Province of P.E.I.	1,421,050	4,000,000
Increase in advances to related companies	(1,655,449)	(8,484,016)
Increase (decrease) in deferred capital contributions	(535,000)	535,000
	(769,399)	(3,949,016)
Investing activities		
Additions to and purchase of property holdings	(700,552)	-
Proceeds on disposal of property holdings	15,000	-
	(685,552)	-
Increase (decrease) in cash	(4,025,630)	1,812,686
Cash transferred to Finance PEI (note 7)	-	(3,757,068)
Cash - Beginning of year	4,026,531	5,970,913
Cash - End of year	901	4,026,531

Innovation PEI

Notes to Consolidated Financial Statements

March 31, 2014

Innovation PEI (the "Corporation") is a Crown corporation established under the Innovation PEI Act. Its financial results are included in the public accounts of the Province of Prince Edward Island.

1 Summary of significant accounting policies

The financial statements of the corporation have been prepared in accordance with Canadian public sector accounting standards established by the Public Sector Accounting Standards Board of CPA Canada. The following is a summary of significant accounting policies used in the preparation of these statements.

(a) General

These consolidated financial statements include the accounts of the wholly-owned subsidiary, F.T.C. Enterprises Limited.

(b) Financial instruments

The Corporation's financial instruments consists of cash, accounts receivable, advances to related companies, due from Province of Prince Edward Island and accounts payable and accrued liabilities.

All financial assets and financial liabilities are initially recorded at fair value and subsequently measured at cost or amortized cost.

(c) Cash

Cash is comprised of cash on hand, cash in banks and savings accounts.

(d) Accounts receivable

Accounts receivable arise from tenant rents, trade sales, staff advance and Harmonized Sales Tax receivable. An allowance for doubtful accounts has been calculated through discussions with management, assessment of the other circumstances influencing the collectibility of amounts, and using historical loss experience. Amounts deemed uncollectible are written off and deducted from the carrying value of the receivable. Amounts subsequently recovered from accounts previously written off are credited to the allowance account in the period of recovery.

(e) Due from the Province of Prince Edward Island

The amount due from the Province of Prince Edward Island is the funding to be received for operating grants and other approved reimbursements.

(f) Programs assistance payable

Program assistance is expensed as development program expenditures and included in accrued liabilities when approved by the Corporation and accepted by the client except for Federal-Provincial cost shared programs and provincially-funded assistance requiring future performance criteria, which are expensed when the funds are disbursed, based on eligible claims.

Innovation PEI

Notes to Consolidated Financial Statements

March 31, 2014

P.E.I. labour rebate commitments that extend beyond two years are deferred. Commitments under this program are expensed in each year of the commitment but only to the extent that performance criteria is met for that particular period.

The PEI Food Products Development Fund is a provincially-funded research assistance program administered by the company. Grants under the program are included in income and a corresponding expense and accrued liability is recorded when the grant is received. The accrued liability is reduced when contributions are made to projects. There is \$121,276 (2013 - \$205,765) in unexpensed assistance included in accrued liabilities at year end. The Corporation has committed funds to qualifying projects in the amount of \$205,765 for the 2014 fiscal year.

(g) Property holdings and amortization

i) Property holdings

Property holdings are reported at the lower of cost and estimated realizable value. Property holdings are amortized using the straight-line method at the following annual rates:

Buildings	5%, 20%, 25%
Equipment	10%, 20%, 33%, 100%

A full year's amortization is recorded in the year of acquisition.

(h) Deferred capital contributions

Innovation PEI and its subsidiary have adopted the policy that contributions received and not spent on specific property holdings at year end are recorded as deferred capital contributions. Once the specific property holdings have been purchased, the deferred capital contributions will be recorded as revenue.

(i) Post retirement benefits

The Corporation provides retirement benefits to eligible employees. The benefit is based on one week's salary per year of service to a maximum of 26 weeks and is expensed on an accrual basis.

(j) Employee pension plan

Most of the Corporation's staff are members of the Province of Prince Edward Island pension plan. Pension obligations are liabilities of the Province and not the Corporation and no liability for these costs has been accrued by the Corporation at March 31, 2014. The employer contributions to the pension for the year totaled \$257,582 (2013 - \$226,247).

(k) Foreign currency

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the balance sheet date. Revenues and expenses denominated in foreign currencies are translated at the average monthly exchange rate.

Exchange differences are recognized into income in the period in which they arise.

Innovation PEI

Notes to Consolidated Financial Statements

March 31, 2014

(l) Revenue recognition and deferred revenue

Grants from the Province of Prince Edward Island are recorded in the period authorized by the Province.

Revenue for product royalties is recorded when received.

Innovation PEI's subsidiary follows the percentage-of-completion method of accounting for revenue and expenditures on project contracts. The percentage-of-completion method records the organization's revenue based on the expenditures incurred and work completed on each contract in progress as at the statement of financial position date. Unearned revenue is recorded as deferred revenue.

(m) Government assistance

The company receives assistance from other government entities. The company recognizes this assistance as revenue in the period when the transfer is authorized and all eligibility criteria and/or stipulations, if any, are met. The company received \$500,000 (2013 - nil) in assistance from Atlantic Canada Opportunities Agency and \$85,000 (2013 - nil) in assistance from the Department of Fisheries, Aquaculture and Rural Development to purchase equipment. The company also received \$225,000 (2013 - \$499,985) in technical support and workshop funding from National Research Council aimed at improved productivity and competitiveness. This amount is included in project recoveries.

(n) Government transfers

Government transfers are the transfer of assets from senior levels of government that are not the result of an exchange transaction, are not expected to be repaid in the future, or the result of direct financial return. Government transfers are recognized in the financial statements as revenue in the period in which events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met, and reasonable estimates on the amounts can be determined.

(o) Management estimates

The presentation of financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reported period. Actual results could differ from those estimates. The following are areas in which management makes significant accounting estimates:

- The amount recorded for amortization of property holdings on the statement of operations is subject to management's assessment of the estimated useful life of the company's property holdings;
- The recognized amounts of liabilities depend on management's assessment of future costs and the probability these events will occur; and
- The revenue recognized from long term projects under the percentage of completion method is based on an assessment of each project based on costs incurred with regard to estimated overall costs of the project.

2 Accounts receivable

The accounts receivable have been reduced by an allowance for possible losses of \$38,380 (2013 - \$24,999).

Innovation PEI

Notes to Consolidated Financial Statements

March 31, 2014

3 Commitments

- (a) F.T.C. Enterprises Limited has entered into a twenty-five year lease expiring November 2038 with the University of Prince Edward Island for the land upon which the Corporation constructed its facilities. The lease cost is \$1 per year and is renewable for a further term of twenty-five years for the same annual consideration.
- (b) The Corporation has committed to disbursing as development program expenses \$48,549,873 (2013 - \$29,134,469) for labour rebate program assistance, \$10,064,234 (2013 - \$8,080,251) for enriched investment tax credits, nil (2013 - \$342,500) in industry chair program assistance, \$236,252 (2013 - \$261,899) for specialized labour rebates and \$89,533 (2013 - \$96,574) for share purchase tax credit over the next four years as companies meet the required requirements.

In accordance with accounting policy, note 1f), program assistance for the labour rebate, enriched investment tax credit, industry chair program assistance, specialized rebate program and specialized labour rebate expenses are expensed based on eligible claims.

4 Related party transactions

Related companies

The related companies are provincial Crown corporations or subsidiaries of provincial crown corporations.

Balance sheet

Advances to related companies

	2014 \$	2013 \$
Advances to (from) related companies		
Finance PEI	11,034,661	9,594,447
Island Investment Development Inc.	441,128	363,602
P.E.I. Biocommons Inc.	54,366	128,866
Atlantic Technology Centre Inc.	178,731	-
Prince Edward Island Century 2000 Fund Inc.	(1,140,000)	(1,140,000)
100417 P.E.I. Inc.	(100)	(100)
Tourism PEI	-	(33,478)
	<u>10,568,786</u>	<u>8,913,337</u>

Accounts payable and accrued liabilities

Included in accounts payable and accrued liabilities is \$1,279 (2013 - \$74,210) payable to the Province of Prince Edward Island.

Innovation PEI

Notes to Consolidated Financial Statements

March 31, 2014

Contributed surplus

F.T.C. Enterprises Limited received a cumulative total of \$366,039 in funds from the Province of Prince Edward Island through Innovation PEI that have been accounted for as contributed surplus. This contribution has not been eliminated on consolidation.

Statement of operations

Revenue

Included in revenue are grants from the Province of Prince Edward Island of \$23,710,200 (2013 - \$23,320,200).

The above transactions were recorded in the normal course of operations and measured at exchange amounts.

5 Contingent liability

The company has provided a loan guarantee for \$25,000 to Atlantic Canada Opportunities agency (ACOA) on behalf of a third party, in the event of default by the borrower. A provision for \$25,000 has previously been accrued in the financial statements and is included in the accounts payable and accrued liabilities amount on the statement of financial position as it is likely that this amount will be paid.

6 Financial risk management objectives and policies

Innovation PEI's principal business activities result in a statement of financial position that consists primarily of financial instruments. The principal financial risks that arise from transacting financial instruments include credit, liquidity, market and operational risk. Authority for all risk-taking activities rests with management, which approves risk management policies, delegates' limits and regularly reviews management's risk assessments and compliance with approved policies. Qualified professionals throughout Innovation PEI manage these risks through comprehensive and integrated control processes and models, including regular review and assessment of risk measurement and reporting processes.

(a) Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty of a financial instrument fails to meet its contractual obligations. Credit risk arises primarily from the company's accounts receivable, advances to related companies and due from the Province of Prince Edward Island.

The Corporation's maximum exposure to credit risk at the statement of financial position date in relation to each class of recognized financial assets is the carrying amount of those assets indicated in the statement of financial position. The maximum credit exposure does not take into account the value of any collateral or other security held, in the event other entities/parties fail to perform their obligations under the financial instruments in question.

Innovation PEI

Notes to Consolidated Financial Statements

March 31, 2014

The Corporation's maximum exposure to credit risk at the reporting date was:

	\$
Accounts receivable	470,842
Advances to related companies	10,568,786
Due from Province of Prince Edward Island	18,338,439
	<u>29,378,067</u>

(b) Liquidity risk

Liquidity risk is the risk that the Corporation may not be able to meet its financial obligations as they come due. Specifically, the Corporation needs to ensure it has adequate resources to repay all accounts payable and accrued liabilities as they come due. The Corporation's approach to manage liquidity risk is to closely monitor its cash flows and forecast the expected receipts and obligations.

The Corporation's financial liabilities of \$23,818,800 are expected to be repaid within one year.

(c) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Corporation's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The Corporation's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity. The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management.

(d) Capital management

The primary objective of Innovation PEI's capital management is to ensure that it maintains a healthy financial position in order to support its business. Innovation PEI manages its capital structure and makes changes to it in light of changes in economic conditions.

7 Transfer to Finance PEI

In a prior year, Finance PEI was established as a new Crown corporation effective April 1, 2012 with a mandate to administer business financing programs and manage real estate and personal property for the provincial government.

Effective April 1, 2012, Innovation PEI transferred the assets and liabilities of the financing and property divisions and three wholly-owned subsidiaries carrying on financing and property operations to Finance PEI. The three subsidiaries transferred to Finance PEI are Atlantic Technology Centre Inc., P.E.I. Biocommons Inc. and 100417 P.E.I. Inc.

Innovation PEI

Notes to Consolidated Financial Statements

March 31, 2014

The assets and liabilities transferred were transferred at their financial statement carrying values as follows:

	Innovation PEI subsidiaries \$	Innovation PEI \$	Total \$
Financial assets			
Cash	3,757,068	-	3,757,068
Accounts receivable	14,451	360,741	375,192
Accrued interest receivable	-	429,698	429,698
Loans receivable	-	14,495,474	14,495,474
Advances to related companies	998,644	1,179,983	2,178,627
Due from the Province of Prince Edward Island	-	11,163,650	11,163,650
Investment in subsidiaries and private companies	1	360,298	360,299
	<u>4,770,164</u>	<u>27,989,844</u>	<u>32,760,008</u>
Liabilities			
Accounts payable and accrued liabilities	1,144,961	334,137	1,479,098
Advances from related companies	3,877,633	-	3,877,633
Deferred revenue	491,854	-	491,854
Short-term notes payable	-	12,618,621	12,618,621
Long-term debt	7,461,667	18,307,473	25,769,140
	<u>12,976,115</u>	<u>31,260,231</u>	<u>44,236,346</u>
Net financial debt	<u>(8,205,951)</u>	<u>(3,270,387)</u>	<u>(11,476,338)</u>
Non-financial assets			
Prepaid expenses	4,136	-	4,136
Net investment in lease	-	828,030	828,030
Property holdings	15,899,281	9,882,586	25,781,867
	<u>15,903,417</u>	<u>10,710,616</u>	<u>26,614,033</u>
Net assets	<u>7,697,466</u>	<u>7,440,229</u>	<u>15,137,695</u>

The \$7,697,466 of net assets transferred from Innovation PEI subsidiaries were recorded by Innovation PEI as a reduction to accumulated surplus. The \$7,440,229 of net assets transferred from Innovation PEI to Finance PEI were recorded by Innovation PEI as an advance to related company.

In addition, contingent liabilities of \$1,511,366 were transferred to Finance PEI.

Innovation PEI

Consolidated Schedule of Expenses by Type
For the year ended March 31, 2014

Schedule 1

					2014 \$
	Salaries Benefits \$	Operating Goods & Services \$	Programs & Grants \$	Amortization \$	Total \$
Expenses					
Operating	3,961,676	1,788,589	-	-	5,750,265
Development programs	-	-	19,595,424	-	19,595,424
Project costs	-	86,208	-	-	86,208
Amortization - property holdings	-	-	-	155,605	155,605
	<u>3,961,676</u>	<u>1,874,797</u>	<u>19,595,424</u>	<u>155,605</u>	<u>25,587,502</u>
					2013 \$
	Salaries Benefits \$	Operating Goods & Services \$	Programs & Grants \$	Amortization \$	Total \$
Expenses					
Operating	3,755,862	1,650,269	-	-	5,406,131
Development programs	-	-	18,010,058	-	18,010,058
Project costs	-	124,468	-	-	124,468
Amortization - property holdings	-	-	-	135,729	135,729
	<u>3,755,862</u>	<u>1,774,737</u>	<u>18,010,058</u>	<u>135,729</u>	<u>23,676,386</u>

Innovation PEI

Consolidated Schedule of Property Holdings
As at and for the year ended March 31, 2014

Schedule 2

	Cost			Accumulated amortization			2014 Net book value \$	
	Beginning \$	Additions \$	Disposals/ Transfers \$	Ending \$	Beginning \$	Amortization \$		Disposals \$
General								
Equipment	6,099,940	700,552	-	6,800,492	5,998,537	131,950	-	6,130,487
Buildings	4,451,845	-	-	4,451,845	4,411,907	23,655	-	4,435,562
	10,551,785	700,552	-	11,252,337	10,410,444	155,605	-	10,566,049
								686,288

Innovation PEI

Consolidated Schedule of Property Holdings
As at and for the year ended March 31, 2013

Schedule 2

	Cost				Accumulated amortization			2013	
	Beginning \$	Additions \$	Disposals/ Transfers \$	Ending \$	Beginning \$	Amortization \$	Disposals \$	Ending \$	Net book value \$
General									
Land	981,500	-	(981,500)	-	-	-	-	-	-
Land improvements	44,765	-	(44,765)	-	44,765	-	(44,765)	-	-
Equipment	6,099,940	-	-	6,099,940	5,935,623	62,914	-	5,998,537	101,403
Buildings	6,118,615	-	(1,666,770)	4,451,845	5,056,985	72,815	(717,893)	4,411,907	39,938
	13,244,820	-	(2,693,035)	10,551,785	11,037,373	135,729	(762,658)	10,410,444	141,341
Property holdings held for resale									
Land	1,334,302	-	(1,334,302)	-	-	-	-	-	-
Buildings	1,500,000	-	(1,500,000)	-	425,580	-	(425,580)	-	-
	2,834,302	-	(2,834,302)	-	425,580	-	(425,580)	-	-
Industrial Sites									
Land	4,122,904	-	(4,122,904)	-	-	-	-	-	-
Land improvements	2,717,805	-	(2,717,805)	-	2,709,390	-	(2,709,390)	-	-
Leasehold improvements	166,702	-	(166,702)	-	5,835	-	(5,835)	-	-
Buildings	19,821,083	-	(19,821,083)	-	5,323,473	-	(5,323,473)	-	-
Equipment	6,999,226	-	(6,999,226)	-	6,964,695	-	(6,964,695)	-	-
	33,827,720	-	(33,827,720)	-	15,003,393	-	(15,003,393)	-	-
Test cell									
	4,937,000	-	(4,937,000)	-	2,318,557	-	(2,318,557)	-	-
	54,843,842	-	(44,292,057)	10,551,785	28,784,903	135,729	(18,510,188)	10,410,444	141,341